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ABSTRACT

To assist the Competitiveness Policy Council in drawing up this report, four of the Council's eight subcouncils were asked to provide their assessment of recent federal initiatives and to make any new recommendations that seemed appropriate. The participating subcouncils were Critical Technologies, Public Infrastructure, Trade Policy, and Training. This document consists of the report of the council as a whole followed by the four individual subcouncil reports. The major federal initiatives with competitiveness implications that were found to be on track were as follows: the budget package passed by Congress to stem the growth of the budget deficit, pursuit of the council's recommendations to improve apprenticeship and school-to-work programs, a new technology policy that increases the budget for the Advanced Technology Program, pursuit of a "global growth strategy" and promotion of exports, the "reinventing government" initiative that is a next step in restoring fiscal discipline, and efforts to reform the health care system. The council made specific recommendations for improving the quality and quantity of public investment. The council favored increasing the gasoline tax to fund additional infrastructure programs and urged a moratorium on future site-specific demonstration projects pending establishment of an evaluation process. It recommended a program to help workers adversely affected by policies to benefit the economy as a whole. The council urged that the public debate be refocused on the competitiveness agenda and that Congress make permanent the research and experimentation tax credit. (Appendixes include 13 endnotes and the four reports prepared by the subcouncils.) (YLB)

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ENHANCING AMERICAN COMPETITIVENESS:

A Progress Report to the President and Congress

Competitiveness Policy Council

October 1993

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* *Laura D'Andrea Tyson was recently appointed to the Council and did not participate in the preparation of this report.*

Enhancing American Competitiveness:

A Progress Report to
the President and Congress

Competitiveness Policy Council

October 1993

I. Introduction

The United States is taking significant steps to enhance its competitiveness. Since our first report to the President and Congress in March 1992, the Competitiveness Policy Council has noted better practices in the business community and better policies in the federal government. During 1993, a series of forward-looking government initiatives has been launched and some have come to fruition. The most important initiative was the five-year deficit reduction program championed by the Administration and delivered by the Congress.

Nevertheless, much remains to be done. The Clinton Administration needs to resume emphasis on its original pro-competitive investment agenda despite the failure of its initial "economic stimulus" package.

The Administration should not allow fundamental investment goals to become subordinated to the new triad of health care reform, NAFTA, and "Reinventing Government." All three of these issues have important implications for American competitiveness.[1] Still, the Administration and Congress should not ignore vitally needed reforms in education and training, export promotion, public infrastructure, and technology policy. The President must of course establish priorities, and American competitiveness should be among these priorities. Moreover, we believe that the prospects for successful action on the "new triad" will be enhanced if public understanding is fostered as to how they relate to the broader themes of improving American competitiveness and productivity.

The focus on competitiveness suffered a serious blow from the political fallout surrounding the "economic stimulus" package earlier this year. That package confused a long-term investment strategy with a short-term stimulus. The capital spending aspects of the package were confused with immediate job creation. The relationship between deficit reduction and new investment was never clearly articulated. As a result, the failure of the package to pass the Senate cast a shadow over the Administration's entire investment program. This is especially troubling in light of the proven linkage between increased investment and higher productivity growth.

Our purpose in issuing this report is two-fold. First, we want to call public attention to the important progress that has occurred. In addition to our support for reducing the budget deficit, we applaud the Administration's efforts in promoting education standards, improving the coordination of technology policy, restarting the Uruguay Round and, most recently, in announcing initiatives to boost exports and reduce export disincentives.

Second, we want to help refocus attention on other key aspects of the competitiveness strategy that we advocated in March 1993:

1. providing incentives for private investment,
2. providing assistance to dislocated workers,
3. rebuilding transportation infrastructure,
4. incorporating competitiveness considerations into the development of all new governmental programs, and
5. articulating for the public how investment differs from consumption.

Although our discussion of private investment is placed at the end of the report, we do not mean to give it less emphasis. The lower interest rates that have resulted in part from the budget package, while enormously valuable, are not sufficient by themselves to spur the additional investment our economy needs. Smarter public investment and stronger pro-export policies will help, but further direct steps will be required to shift a larger share of GDP into investment.

II. The Council's Approach

The Competitiveness Policy Council is a 12-member bipartisan federal advisory committee whose members are drawn from business, labor, government, and the public interest. In 1992, we reported to the President and the Congress that "America's economic competitiveness... is eroding slowly but steadily."[2] We pointed out three underlying causes for this problem. The first is America's proclivity to think and act with a short-term horizon. A second fundamental problem, which helps explain the emphasis on the short-term, is the perverse incentives that permeate American society. For example, our tax laws penalize saving, tilt investment away from productive capital equipment, and favor consumption and debt. The third problem is America's slowness to recognize the need to think globally.

In March 1993, the Council issued its second major report to the President and the Congress. In this report, we laid out a comprehensive competitiveness strategy for America.[3] Our specific recommendations were developed through a series of public meetings of the full Council and eight Subcouncils focussing on Capital Formation, Corporate Governance, Critical Technologies, Education, Manufacturing, Public Infrastructure, Trade Policy, and Training.

The Council's strategy for improving American competitiveness begins with the setting of clear national goals. Our central objective is to increase the growth of national productivity—from less than 1 percent annually to at least 2 percent—in order to raise the national standard of living.

Faster productivity growth alone is not sufficient. Companies can become more efficient simply by laying off workers, as many are currently doing. However, in order to guarantee an increasing number of high-wage, high-skill jobs, the economy must expand by at least 3 to 3 1/2 percent annually. Attaining this level of expansion requires a large increase in national private investment (by at least 4 to 6 percent of GDP) which should be financed at home through increasing *domestic* private saving. It also requires a corresponding increase in public investment.

To assist the Council in drawing up this progress report, we asked four of our eight subcouncils—Critical Technologies, Public Infrastructure, Trade Policy and Training—to provide their assessment of recent federal initiatives and to make any new recommendations that seemed appropriate. These four Subcouncil reports are appended.

III. Progress So Far

This section will discuss the Administration's major initiatives with competitiveness implications. We start with the ones that are largely on track. In the next section we point out the areas where greater attention is needed.

1. Deficit Reduction

In the Council's 1992 Report to the President and the Congress, we pointed to the large federal deficit as a significant cause of the low national saving and investment rates that in turn are a major cause of the nation's competitiveness and economic problems. The Council recommended that the Federal budget be shifted into surplus in order to make a net contribution to national saving. We noted, however, that while increased saving is necessary for greater investment (unless the money is borrowed from abroad), it is not sufficient. Investment will occur only if there are market opportunities.

The focal point of the Administration's efforts in its first seven months was on developing and winning approval of a five-year deficit reduction plan. The Council endorsed the thrust of the Administration's initiative in our 1993 report. **Budget correction is**

absolutely essential and we are gratified that the program enacted is a good start in this direction. This is a significant accomplishment and should contribute to strengthened American competitiveness.

We are aware that many people continue to question the wisdom of deficit reduction at a time when economic growth is so modest. Therefore, we want to reiterate why the Clinton Administration and the Congress chose the right course. First, the high level of government dissaving contributes to raising interest rates which discourages job-creating private investment. Second, the commitment to reduce the deficit is a factor in the substantial decrease in long-term interest rates. These low rates provide a considerably larger boost to the economy than the "short-term stimulus" that was contemplated in February—and could be reversed if budget correction is threatened. Third, the accretion of budget deficits over the past 20 years has reduced the flexibility of the federal government to use fiscal policy tools. Demonstrating that the federal government can control its budget will restore some ability to utilize fiscal tools. Fourth, the increasing national debt siphons a growing percentage of taxes into paying interest on that debt. This subverts confidence in the government as the public sees less tangible return on each tax dollar.

The Administration is reportedly preparing a new round of spending cuts. The Council supports this effort and intends to review budget recommendations from groups such as the Concord Coalition (Rudman-Tsongas).

2. Education

Investing more in our human resources is absolutely crucial to a competitiveness strategy that aims for higher economic productivity. The Council made a number of specific recommendations on education and training in our 1993 report. Many of these initiatives, such as improving apprenticeship and school-to-work programs, are being pursued by the Administration.

Making institutional improvements in the US public education system may be the single most important pro-competitiveness step that can be taken. The Council offered a set of policy reforms in this area, and the Clinton Administration has adopted a similar approach. The Administration's bill—the "Goals 2000" legislation—would set educational goals, establish mechanisms to certify national standards and new student assessments, and encourage states to adopt standards-based education reform.

This legislation has been reported by both the relevant House and Senate committees. There are some differences between the bills which we hope will be resolved in a manner consistent with the Administration's approach. **The Council believes that clear and challenging content and performance standards, student assessments based on those standards, training for teachers to teach to higher standards and greater accountability for schools and students are essential for improving the performance and equity of the education system.**

3. Technology

Technology policy is a key element in the competitiveness equation for at least three reasons. First, the ability of manufacturers to make constant improvements in products can be a pivotal factor in whether a company remains competitive internationally. Second, new technology empowers workers by increasing their productivity, which should result in higher wages—though achievement of the full benefit requires significant efforts to upgrade workers' skills and to utilize worker-friendly technologies. Third, there is a positive relationship between the commercialization of new technologies and the creation of new jobs.

Several months ago, the Administration announced a new technology policy, including increasing the budget for the Advanced Technology Program to $680 million over five years. The Council strongly supports that initiative. Legislation to improve

the National Institute for Standards and Technology and to promote competitiveness partnerships in the federal labs are moving ahead in both the House and the Senate.

Although the Administration proposed a permanent R&E tax credit, the Omnibus Budget Reconciliation Act of 1993 renews the credit for only three years (including one year retroactively), thus undermining industry's ability to integrate it into long range planning. **We urge the Congress to make a long-term commitment to the research tax credit and to expand it to cover improvements in process as well as product technology.**

There are several areas of technology policy that have not moved ahead as quickly as we would have hoped. The Administration's initial request for $146 million for the Advanced Technology Program was not approved by the Congress and only small increases are being provided for FY94. **The Council reaffirms its earlier recommendation that civilian technology programs by FY97 be increased by at least $4 billion on an annual basis by channelling funding, personnel and facilities to them from previous defense missions.**

Although the Council favors increased investment in critical technology, we believe that a portion of the increase could be offset by cuts in low priority technology programs. The Council notes the possibility of establishing a Laboratory Closing Commission to evaluate whether there is continued need for all 700 current federal laboratories.

In addition, the Council recommends that the Administration seek more private sector expertise in setting technology strategy and evaluating R&D programs such as the Technology Reinvestment Program. The federal government needs to develop better mechanisms for securing private sector input, including situations where experts may have a financial interest in the outcome of some issues. It is currently too difficult for knowledgeable people, active in the private sector, to provide technical assistance to government agencies.

4. Export Promotion

America's huge trade deficits, which have accumulated over $1 trillion over the past decade, are the single clearest indicator of the nation's competitiveness problem. **Trade improvement is particularly critical for the American economy because it can provide new markets that will create high-paying jobs in the short run and spur new private investment to meet the growing demand.** At a time when economic growth is sluggish, expanding sales in overseas markets becomes even more important.

The Council applauds the Administration's pursuit of a "global growth strategy." The Council also recommended in our 1993 report that the Administration "push hard... to open foreign markets to American products," and the Administration has done this both in obtaining a G-7 commitment to restart the Uruguay Round and in working out a new framework for US-Japan economic relations.

The Administration has also moved to invigorate the Trade Promotion Coordinating Committee (TPCC), which recently outlined a new strategy for exports with the goal of increasing exports from the current level of $700 billion to $1 trillion by the end of the century. Specifically, the TPCC recommends liberalizing certain export controls which affect some $35 billion of high technology exports. The TPCC report also calls for the creation of one-stop shops to consolidate the current maze of federal export promotion services and a unified export promotion budget. Finally, the TPCC report recommends steps to attract more financial institutions into export financing and proposes increasing per-project caps on financing by the Overseas Private Investment Corporation from the current $50 million to as much as $200 million. Many of these points were recommended by the Council in March.

An effort is needed to reduce domestic export disincentives that block tens of billions of dollars of foreign sales by American companies.[4] It is particularly important to limit our present unilateral export controls; only multilateral controls have proven to be effective against a target country. In addition, the administration of export controls should be consolidated into one federal agency under the supervision of the National Economic Council in conjunction with the National Security Council.

There are several areas, however, in which the Administration's efforts fall short of the competitiveness agenda favored by the Council. **An agreement with Japan (and perhaps the entire G-7) is needed to lock in the strong exchange rate for the yen that has developed over the past six months.** The stronger yen will promote a sharp reduction in Japan's huge trade surplus over the next two to three years and improve American competitiveness in world markets. Renewed weakening of the yen would reverse these gains, however, and the Administration should therefore seek to lock in the current level through adopting currency reference ranges (as recommended by the Council in its March 1993 report). Attention is also needed to the problem of the increasing price of the dollar relative to certain European currencies.

The Heads of State communique issued at the G-7 Summit in Tokyo indicates that Japan agreed to stimulate demand-led growth "as necessary" (without any commitments to specific targets). Following Japan's recent reductions in interest rates, the US government should encourage Japan to further stimulate demand with fiscal measures. Germany should be urged to build on its recent interest rate reductions to reverse the negative growth and double digit unemployment that has spread throughout Europe.

A sharp increase is needed in the quality and quantity of US export credit programs. Export finance is often crucial in determining the outcome of contracts, particularly in the fast-growing markets of the developing world. The Export-Import Bank's annual program level should be increased from $15 to 20 billion to support more intensive export efforts.[5] Additional increases may be needed in future years.

Trade measures cannot make America more competitive but they can boost our *opportunity* for competitiveness by increasing the size of world markets. The ability of American workers and firms to compete successfully in world markets depends to a large extent on whether there is adequate US investment in human resources, technology and physical capital. That is another reason why the US government needs to have a comprehensive competitiveness strategy agenda.

5. Reinventing Government

An effective and efficient government is essential for achieving greater US competitiveness. This has always been the case. But the need is more urgent now at a time of tight federal budgets, difficult domestic problems, and increasing economic challenges from abroad. The members of the Competitiveness Policy Council have examined the recent *Report of the National Performance Review* and believe that it makes an excellent start at improving the management of what is probably the most complicated enterprise in the world.

The Council supports many of the Vice President's recommendations, some of which have already been considered by our Subcouncils. It is very important that unnecessary federal spending be cut so that these funds can be reallocated to needed investment initiatives. Getting more bang for the taxpayer's buck may be one of the most pro-competitiveness actions a government can take.

As the Report notes, there have been numerous efforts in the past to reform and reorganize the federal government. It is true that many of these past efforts proved disappointing. Nevertheless, we have high

hopes for the Clinton Administration's initiatives because of the fresh approach that it takes. In focusing on improving the productivity of federal employees, on eliminating cumbersome procurement regulations, on adapting new technology, and on developing a "customer" orientation, **Vice President Gore's package may be the most significant government reform effort in several decades.**

In endorsing this initiative, we do not necessarily agree with every recommendation or with the sufficiency of the reform package. But we do believe that many of the reforms are significant and well considered and that, as a package, they go in the proper direction. Since so many of the important public investments are largely delivered by government (e.g., roads and primary education), improving the government delivery system can make a significant contribution to competitiveness.

6. Health Care Reform

The Council supports the Administration's efforts at seeking a fundamental reform of the US health care system. We are pleased that the Administration and the Congress will seek to keep the process a bipartisan one. The Council is now studying the competitiveness impact of the Administration's initiatives and plans to provide an analysis thereof in its role as "competitiveness ombudsman."

IV. Where More Action Is Needed

The Council's competitiveness strategy emphasizes the need for greater public investment in infrastructure, technology, training and education. These programs have a substantial long-run payoff in raising the productivity of the economy and in fostering new private investment. We are pleased that the Administration is pursuing many of these initiatives, but we are disappointed that the investment issue has become submerged in recent months. There were a number of pro-competitive elements in the Administration's "stimulus" package—$3 billion for highway improvements, $250 million for airport improvements, $146 million for the Advanced Technology Program, and $47 million for cooperative R&D agreements at the National Labs. But after the Congress failed to adopt the Administration's budget supplemental, these investments seem to have dropped from sight.

The Council makes the following specific recommendations for improving the quality and quantity of public investment:

1. Infrastructure

As the Council noted in its 1993 report, "there is a widespread consensus that infrastructure investment and economic growth are intertwined, and that well-selected public investments in infrastructure can play an important role in furthering economic growth."[6] Indeed, we see better infrastructure as having a multiple payoff in decreasing manufacturing costs, in spurring related private investment, and in facilitating exports.

The Council supported the Administration's supplemental request for increased transportation investment and regrets that this portion of the President's initial budget package was not enacted. We urge the Administration to seek the authorized level of funding for surface transportation for FY95 and beyond.

We are not advocating a massive program to pave America. Rather, **we favor greater efforts to rehabilitate existing facilities and to upgrade the quality of roadbuilding to world-class standards so that roads will last longer.** It is this *sustained* effort to improve infrastructure that will have a high payoff over the long-run. The Council also supports a strong program in high speed rail, Mag-lev, and intelligent vehicle highway systems.

The Council supports increasing the level of infrastructure investment by about $3 billion, to be financed through increasing the gasoline tax.[7]

The retail price of gasoline, adjusted for inflation, is now at a historical low, well below the level that prevailed *before* the first "oil shock" of 1973. The gasoline tax, long a vehicle for funding these programs, should not be treated as general revenue. The American people are prepared to pay higher taxes when necessary as long as they see the benefits of their investment.

As noted in our 1993 report, inappropriate transportation "demonstration" projects can discredit federal infrastructure efforts.[8] Many of these projects are not demonstrations in the normal sense. **The Council urges a moratorium on future site-specific highway demonstration projects pending the establishment of a process to evaluate the merit of these "demonstrations."**

The Council endorses the recommendations to restructure FAA's Air Traffic Control System into a government-owned corporation within the Department of Transportation. Our Subcouncil on Public Infrastructure considered this matter extensively last year and called for a "process" to evaluate organizational reforms. The National Airline Commission did an excellent job of considering this problem and we endorse its recommendation for restructuring the FAA.[9]

2. Dislocated Workers

The United States needs a comprehensive program to help those workers who are adversely affected by policies which aim to benefit the economy as a whole. US labor markets are under enormous pressure with defense conversion, changes in trade, technological and other structural changes. Government labor market programs serve as one vehicle for helping reduce the adjustment burden borne by these workers. A comprehensive program would combine various aspects of existing programs to provide adequate benefits to all workers in need. Benefits should include job search assistance, skills assessment, counseling, referral services, payment for training programs and extended income and benefit payments through the training period.

Realizing this need, the Administration has requested approximately $1.2 billion in additional funds for dislocated worker assistance in FY 1994. While this level of funding is greater than that devoted to dislocated workers during the 1980s, **the Administration has not yet offered a detailed proposal and this should be done quickly. The Council believes that any serious adjustment program must include adequate income maintenance payments and have a secure funding source, so that all workers in need will receive adequate benefits.**

The Council has discussed NAFTA but has not taken a position on the pending Congressional action. We reiterate the point made in our 1993 report that while NAFTA would be expected to lead to increased exports to Mexico, NAFTA would also add to the need for improvements in worker adjustment.

3. Focusing the Debate

Now that the budget package has been enacted, the Council urges that the public debate be refocused on the competitiveness agenda. The National Economic Council should play a central role in the budget process, assuring that decisions about allocating scarce investment dollars are made strategically at the highest levels of the government.

We believe strongly that the American people will support a genuine government investment program so long as it is complementary to budget discipline. This means that greater investment must be fully paid for. **Reducing the federal deficit and increasing public investment must go hand-in-hand. The view that we must choose one or the other is a feature of Washington that needs to change.**

Under current budget rules, increasing federal investment will necessitate cutting other programs that impede (or fail to contribute as much

to) American competitiveness. We believe that a number of existing programs have much less priority than those we recommend, and that such a trade-off is therefore both feasible and desirable. Given the difficulty of making these cuts, however, the Congress may want to consider new mechanisms to assist it.

In our view, the Congressional experiment in creating the Base Closing Commission was a success. It is worth considering whether some features of that approach—the "independent" bipartisan commission and the non-amendable package—could be applied to finding spending reductions in other programs. The Council itself would be willing to suggest spending cuts if requested to do so by the Administration or the Congress.

Our policymakers must make a clearer case for how the right kind of public investment now can lead to much higher economic growth in the future. It is also important to see the ways in which pro-competitive policies dovetail. For example, trade liberalization creates opportunities which can be seized to maximum effect over time only with the benefits of public investment in worker training and technology. Likewise, technological change can cause dislocation which can be alleviated by export-induced job creation and employee retraining. These linkages make it even more important for the federal government to maintain a balanced and comprehensive investment agenda.

We urge OMB to propose, and the Congress to institute, an "Investment Budget." **We would like to see a process whereby the Administration separately considers the appropriate split between investment and consumption and formulates a multi-year plan.**[10] The Congress should vote on the adequacy of the investment component as part of the annual budget resolution. We would hope that such a process would mitigate the bias in the budget process against programs that have a delayed, though high-yield, payoff.[11]

The Investment Budget that we propose would not make it easier to "deficit-spend" for true investment programs.[12] It removes no budget discipline for investment. Its purpose is to educate the public and assure that policymakers consider the trade-off between investment and consumption in allocating scarce budget resources. New investment would have to be paid for rather than added to the deficit.

It is also important to deal with the widespread public cynicism about government "investment." **Our leaders must articulate why investment is different than everyday operational spending.** They should develop new decision-making mechanisms to dispel the widespread presumption that much infrastructure, technology and scientific spending is allocated for parochial political purposes ("pork"). The Congress should explore ways to maintain the integrity of merit-based selection systems for determining which programs to fund.

4. Boosting Private Investment

As the Council explained in its 1993 report, increased and smarter private investment in plant and equipment, R&D, and worker training is essential to raise productivity, create jobs and boost incomes. Without additional increases in investment, even our current standard of living will not be sustainable. Thus, we are heartened by recent data showing an increase in corporate expenditures for worker training.

One of our main recommendations, which arose from our Manufacturing Subcouncil, was for an incremental and permanent "equipment tax credit." We believe that such a credit would both increase the level of private investment and increase the payoff, in terms of the national economy, from each dollar invested. Although the Administration sought a permanent investment tax credit (ITC) for small businesses, its credit for large companies was to run only for two years. The entire proposal attracted little support, largely because of the temporary nature of the credit, and died in the House Ways and Means Committee.

In assessing the desirability of tax expenditures, it should be

recognized that the popularity of a credit among business leaders may not be the best measure of its efficacy. When members of the Council publicly advocated a permanent equipment tax credit for all firms, including in testimony before the Senate Finance Committee, we were told that "Business doesn't want the ITC" and "they would prefer a lower corporate tax rate." These views carried the day.

The Council did not propose an equipment tax credit because it would be popular in the business community. We did so because we believe that such an incentive would channel more corporate spending into high-payoff investment. **Our purpose was to use tax incentives *to change* existing corporate behavior and encourage job-creating investment. Therefore, we were not surprised when corporations showed limited enthusiasm for the proposal.** What did surprise us, however, was that this lack of enthusiasm was so dispositive in the decision to drop the whole idea.

The Council remains convinced that lowering the hurdle rate for new investment would be conducive to increasing productive investment by American industry. If an equipment tax credit is not politically possible at this time, we urge the Administration to consider alternative approaches to the same end.[13] One option would be to test a five-year investment tax credit for small business only. A small amount of tax incentive might leverage a great deal of private investment by employers. Another option, which we recommend in our latest report, is to change depreciation allowances so that the tax life of the equipment is consistent with its competitive life. We also recommend reinstating the R&E tax credit permanently (as discussed above).

There is also an immediate need for new investment in the continuous training of active workers. This issue was considered in several of our subcouncils last year and will be taken up again in our new Subcouncil studying High Performance Workplaces.

V. Conclusion

The Council is pleased that a significant portion of our competitiveness strategy has been put into place by the new Administration and the Congress. But a great deal remains to be done. Now that the Congress and the Administration have concluded action on the five-year deficit reduction plan, **we urge that the Administration give high priority to articulating a multi-year competitiveness agenda.** We believe that the public will support such long-term investment, if government officials do a better job explaining how spending for "investment" will create jobs and improve our standard of living in the long run. The Council stands ready to assist in this effort in our statutory role as a national "forum" for championing competitiveness.

There is a tendency for public officials and the media to perceive competitiveness as "one more issue" that must compete for attention with other issues like health care reform or reinvention of government. We do not concur with that "either-or" view. Rather, **we believe that difficult policy reforms, such as health care, will stand a better chance of being enacted if the competitiveness implication of continued inaction were better recognized by the public.** It is for these reasons that we think competitiveness should be an underlying principle both in crafting better programs and in selling them to the public.

Although the "competitiveness agenda" seems to have dropped from sight in recent months, we believe that the time is right for the Administration to get back to such basics. The federal government needs a comprehensive competitiveness strategy to guide its efforts to create jobs and boost America's standard of living. The Council has offered such a strategy and we stand ready to assist the Administration and the Congress in attaining urgently needed change.

Notes

1 The Council emphasized that soaring health care costs were one of the America's six most important competitiveness problems in *Building a Competitive America*, March 1992, pp. 24-25, 31-32. Given the large number of health care reform plans already in existence or in preparation, the Council decided not to initiate its own plan. We have recently created a Subcouncil to analyze the competitiveness implications of the President's new plan and other reform proposals that come before Congress.

2 Competitiveness Policy Council, *Building A Competitive America*, (Washington, DC: Government Printing Office), March 1992, p. 1.

3 Competitiveness Policy Council, *A Competitiveness Strategy for America*, (Washington, DC: Government Printing Office), March 1993.

4 A recent study found that exports foregone by US export disincentives may range as high as $40 billion annually. See J. David Richardson, *Sizing Up U.S. Export Disincentives*, (Washington, DC: Institute for International Economics), 1993.

5 The Clinton Administration orginally proposed reducing Eximbank's FY94 funding level by $34 million. Instead, the Congress added $250 million to promote exports to the former Soviet Union, bringing the Bank's program level to over $18 billion.

6 Competitiveness Policy Council, *A Competitiveness Strategy for America*, (Washington, DC: Government Printing Office), March 1993, p. 31.

7 Council member Bruce Scott dissents from this recommendation. He favors a much larger gas tax increase but does not agree that it should be devoted to infrastructure.

8 The Council notes that little of the criticism of the President's stimulus package was aimed at transportation programs. The main target was the $2.5 billion for community development block grants.

9 The National Commission to Ensure A Strong Competitive Airline Industry, *Change, Challenge and Competition*, (Washington, DC: Government Printing Office), August 1993, pp. 8-9. This Commission was chaired by Governor Baliles, who also chairs the Council's Public Infrastructure Subcouncil.

10 Present law already requires a report on public civilian capital investment. See 31 USC 1105(e). It has been several years since this report was made in full.

11 The FY1994 *Budget of the United States Government* (p. 71) includes a chapter on federal investment outlays, but this information is apparently not used in decision-making. The Budget also includes a listing of newly-proposed "investment initiatives" (p. A1203). Not all of these programs are clearly investment.

12 Once the federal budget gets under control, it would be appropriate to consider a separate budget discipline for investment in order to allow a reactivation of fiscal policy. Even the fiscally prudent Japanese use off-budget bonds for construction projects.

13 Council member John J. Murphy opposes any effort to revive the Investment Tax Credit.

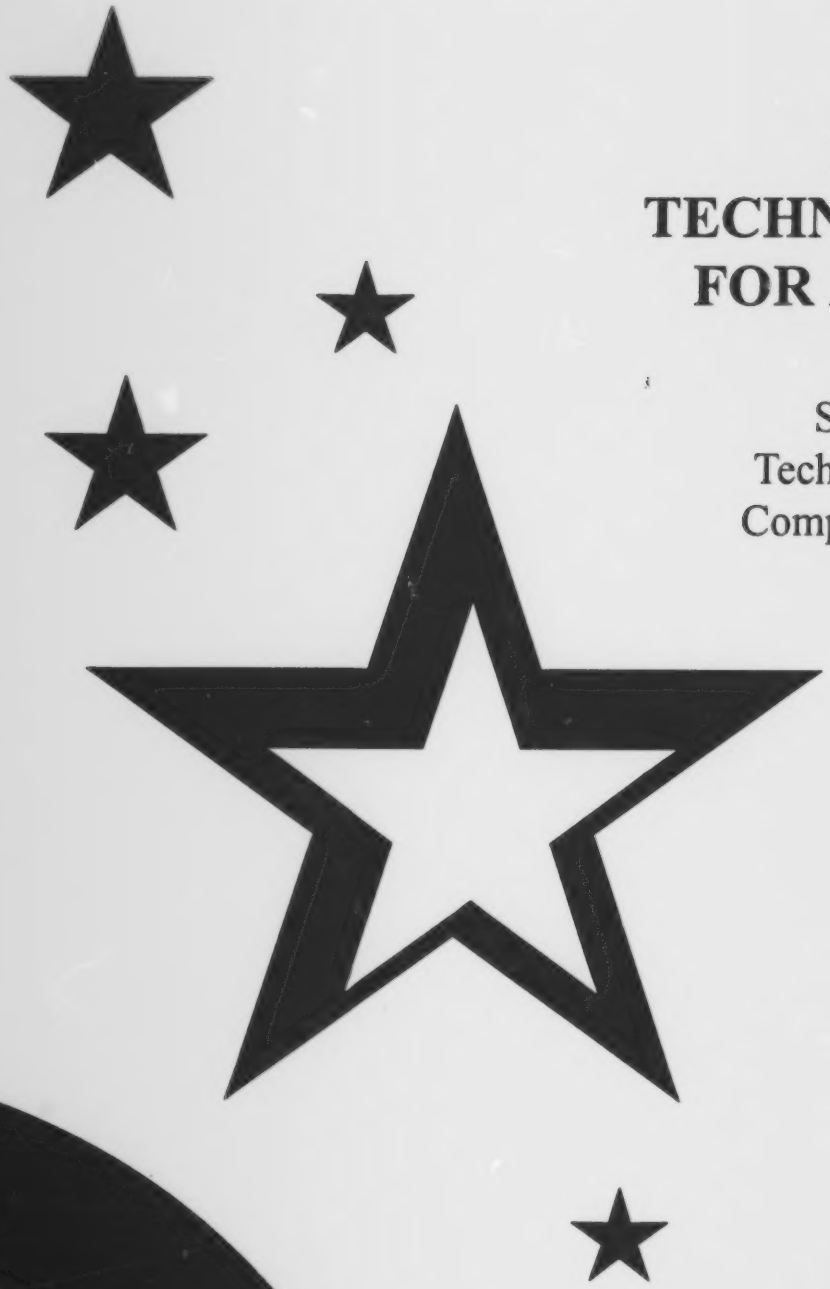
Subcouncil Reports

I. Implementing Technology Policy for a Competitive America
(Critical Technologies Subcouncil Report)

II. Restoring Public Confidence in Infrastructure
(Public Infrastructure Subcouncil Report)

III. Forging A Strong Trade Policy
(Trade Policy Subcouncil Report)

IV. Investing in Our Workforce
(Training Subcouncil Report)



IMPLEMENTING TECHNOLOGY POLICY FOR A COMPETITIVE AMERICA:

Status Report of the Critical Technologies Subcouncil to the Competitiveness Policy Council

Erich Bloch, Chairman
David W. Cheney, Staff Director

August 1993

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I. Introduction

In the summer and fall of 1992, the Subcouncil on Critical Technologies developed a comprehensive set of recommendations to improve the contribution of technology to the nation's economic welfare. These recommendations, contained in the Subcouncil's report *Technology Policy for a Competitive America*, served as the basis for technology recommendations in the full Competitiveness Policy Council's second annual report to the President. This report summarizes the activity to date in implementing these recommendations and highlights the next steps needed to ensure continued progress.

Our recommendations sought to refocus Federal science and technology policy on the new challenge of international economic competition, replacing the traditionally predominant focus on the challenge of military competition with the Soviet Union. They also address our nation's central technology problem: the need to apply technology effectively to new products that can be conceived, developed and manufactured in the U.S., thereby improving the nation's standard of living. To this end we must improve the use of the nation's substantial science and technology resources and provide a climate that fosters investment in research and development, education, and small companies. In summary, our recommendations were to:

1. Increase National Investment in Civilian and Dual-Use R&D

- Equalize the allocation of Federal R&D funds between defense and civilian R&D and give priority to programs with the strongest links to industry (e.g. programs where industry shares in the planning, conduct, or funding of the R&D). Government R&D institutions, especially Federal labs, should also be made to work more closely with industry.
- Provide tax incentives to encourage increased private sector investment in R&D and equipment.

2. Promote Commercialization of Strategic Technology

- Authorize ARPA, ATP and NIH to purchase equity or extend loans/loan guarantees to help support commercialization of promising technologies developed through their R&D contracts.
- Revise Federal procurement laws and regulations to provide incentives for technology investment and development by stimulating markets for innovative technologies.

3. Create a World Class Technology Base

- Improve the infrastructure for technology utilization by helping small manufacturers modernize, by improving education and training, and by improving the nation's information infrastructure.

4. Organize U.S. Institutions for Results

- Establish a focal point for private sector input to the science and technology policy making process, particularly at the White House level, and improve mechanisms to manage technology policy and coordinate it with other policies, such as tax, regulatory, trade, and environmental policies.

It is important to restate that the end goal of the subcouncil recommendations is to improve America's economic performance. There is no doubt that in the long run, our nation's ability to have ample, well-paying jobs and a high standard of living depends on our

ability to develop and deploy technology. Technology is key to creating the new industries that generate new jobs. It also helps existing industries improve their productivity, enabling them to preserve jobs in the United States that would otherwise go to foreign factories.

II. Implementation Status

Progress in Some Areas

We are encouraged to see that many of the recommendations in the Clinton Administration's technology plan, *Technology for America's Economic Growth: A New Direction to Build Economic Strength*, released on February 22, coincide with recommendations endorsed by the Subcouncil. Significant progress has already been made in several areas. Congress approved, and the President signed into law on June 10th, legislation that will modify the National Cooperative Research Act to give joint production ventures the same antitrust protection as joint R&D ventures. This will allow companies to work together to increase their competitiveness in new areas, such as manufacturing in capital intensive technologies where it is difficult for companies to go it alone.

The Administration has also shown a clear intention to act in areas where it alone can implement the recommendations. For example, the Department of Defense is seeking to revise its procurement regulations in ways that will both save money and ultimately stimulate commercial innovation. The Administration has also sent strong signals to industry, the Federal laboratories and the Congress that civilian/dual-use technology and collaboration with industry will be priorities for the future. The impact that this commitment is beginning to have is evident in many areas. The culture at the Federal labs is becoming more responsive to industry needs and spawning increased partnerships with industry, and new legislation has been introduced that reallocates budgets of the Federal labs to industry/government partnerships and increases funding for industry-led programs. We urge the Administration and the Congress to continue the progress that has been made in these areas.

Lack of Progress in Other Areas

In other areas, however, implementation has not progressed. For example, the Administration's economic stimulus plan, which in reality was a mix of stimulus and longer term investment proposals, was not enacted by Congress. This important package included strong increases for several programs that are vital to competitiveness in technology, such as NIST's Advanced Technology Program. The demise of the stimulus package can be partly attributed to polarization of the political debate in the Congress, which has centered around the need for deficit reduction. This is an important goal, but the narrow focus on spending cuts disregards the equally vital need for investments in areas that will improve industry's capability to commercialize technology and create jobs. As a result of this climate, even the attempt to make the R&D tax credit permanent -- an action that has had broad bipartisan support for nearly a decade -- has been put at risk.

Reasons for Lag

Overall, implementation of the President's -- and the Council's -- technology program appears to have slowed for several reasons:

- Lack of a clear articulation of the rationale for the program, and lack of a detailed long-term plan for implementation. The Administration's technology plan contained a long list of commendable recommendations, but in many cases, the specifics, justification and prioritization necessary for effective

implementation have not been articulated.

- Competing interests have diverted attention away from continued emphasis on implementation. For example, once the stimulus package failed in Congress, there was little focus within the Administration to address anew strategic issues and problems.
- The tight budget climate, and the fact that the Administration's budget request was $5.7 billion more than allowed by the budget agreement for discretionary spending, forced the Congress to choose between stimulus and investment packages and other discretionary spending requests.
- Inappropriate characterization of technology programs as "pork" rather than investment.
- The tendency of both the private sector and the political process to give less support to long-term investments programs compared to programs with more immediate impact. In some cases, the private sector has not made technology programs, which primarily have long-term benefits, it highest priority.

The Subcouncil recognizes that the Administration has only had six months to enact a long list of technology policy recommendations, and over time, a number of the programs may be eventually implemented. Regardless, we are concerned about the slow pace and the dimmed prospects for many key technology programs. For this reason we are respectfully re-emphasizing the importance of our recommendations and increasing our efforts to see them implemented.

III. Priority Actions

The following are areas which require immediate action:

Balance defense and civilian R&D spending by 1995. The Subcouncil, realizing the tight budget and need for deficit reduction, has not advocated major new increases for R&D. Rather we have proposed balancing defense and civilian R&D spending by 1995. This will enable a shift of nearly $8 billion from defense development to high priority civilian and dual-use applied research and development programs. Considerable funding for dual-use R&D has already occurred in the Department of Defense, but not all civilian technology efforts can be effectively handled this way. A significant portion of the $8 billion should be shifted to programs within civilian agencies. The Administration adopted this recommendation as a goal for 1998, which is moving in the right direction. It has not, however, followed up with a detailed plan. *The FY 1995 budget submission to Congress, due in a few months, is the appropriate opportunity to begin emphasizing and implementing this shift.*

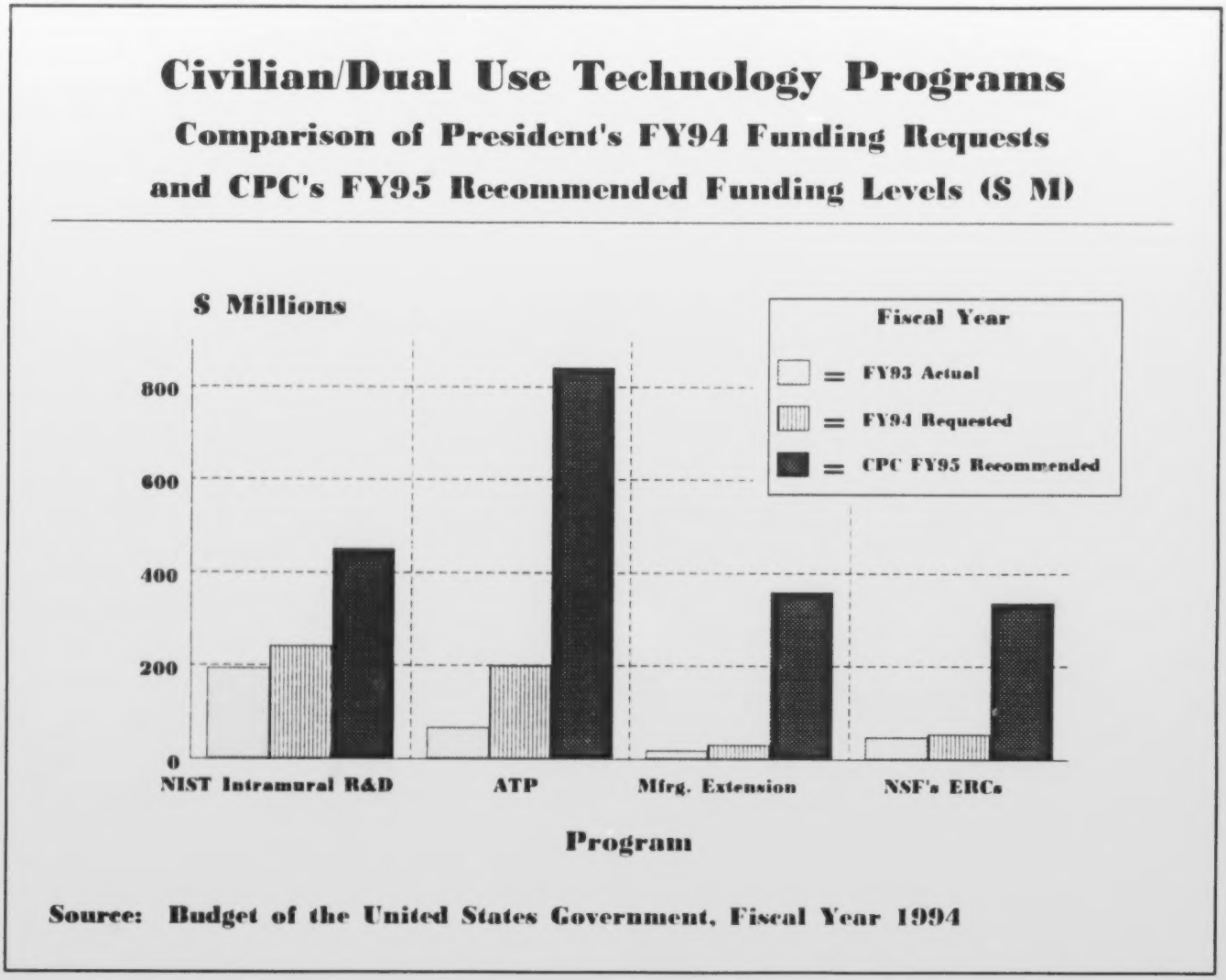
The Administration's Technology Reinvestment Project, in which five agencies are cooperating to use nearly $500 million in defense funds for dual-use technology programs, is a positive action in this area. The enormous private sector response to the program, with several thousand proposals (and commitments of billions of dollars of private sector, state and local resources in cost sharing), shows the pressing need for such a program. We are concerned, however, that the process for reviewing the proposals does not build in more private sector expertise to ensure that the proposals selected for funding are high quality and reflect industry priorities. The Administration has also not made clear what TRP's role will be, if any, in future years. If it is intended to be a longer term program, the Administration should specify its goals, plans and estimated funding levels, and ensure more intense and systematic participation from the private sector.

Expand programs with strong linkages to industry. The Administration has proposed

large increases in programs with close links to industry and markets, such as the Advanced Technology Program and the Manufacturing Technology Centers at the National Institute of Standards and Technology, and the National Science Foundation's Engineering Research Centers (see figure 1). It has also supported strengthening the linkages between other Federal R&D activities, especially those conducted at Federal laboratories, and those of the private sector. The proposed increases for these high priority programs have had mixed success in Congress, and these programs are not being built up as fast as is necessary.

Congress needs to strengthen its commitment to long-term economic growth by increasing support for NIST, NSF, NIH, DOE technology partnerships, and ARPA dual-use

Figure 1



Source: Budget of the United States Government, Fiscal Year 1994

programs. The Administration needs to continually support these programs in Congress and reemphasize them in its FY1995 budget. Legislation that will increase funding for key technology programs and help strengthen the linkages between the labs and industry is moving in both houses (see Table 1). *This legislation should be supported by the Administration and passed by the Congress quickly.*

Improve technology policy-making and management. Our recommendations put great emphasis on creating better mechanisms for private sector input to government policy making in technology. In particular, we stress the need for a permanent set of advisory committees that can deal with the many technology policy issues the country faces and can be a partner with the administration in formulating strategies and budgets.

We also support strengthening the Federal Council on Science and Technology (FCCSET) and using it to coordinate and manage interagency technology initiatives, such as those in biotechnology, high performance computing and communication, advanced materials and processing, and manufacturing, and to develop new initiatives, such as in electronics. FCCSET also needs to be modified to facilitate private sector input, specifically by

Table 1

Key Technology Legislation

Bill		Primary Goals	Status
H.R.820 / S.4	National Competitiveness Acts	• Increase Technology Administration funding • Increase NIST Funding (Intramural R&D, ATP, Manufacturing Extension, facilities) • Establish technology financing programs (venture capital, civilian technology loans)	The House passed H.R.820 on 5/19/93 The Senate Commerce Committee passed S.4 on 5/25/93 and reported the bill to the full Senate for its consideration; no further action to date
H.R.1432 / S.473	DOE Laboratory Technology Act / DOE Nat'l Competitiveness Partnership Act	• Reallocate 10-20% of DOE/NASA lab budgets to partnerships with industry • Improve processing of CRADAs	H.R.1432 was referred to the House Subcommittee on Energy; the Energy Subcommittee and the House Committee on Space, Science and Technology are currently holding hearings The Senate Energy Committee passed S.473 early June and reported the bill to the full Senate for its consideration; no further action to date
H.R.1757 / S.4, Title 6	National Information Infrastructure Acts	• Develop high performance computing and high speed networking applications for healthcare, education, manufacturing, libraries, etc.	The House passed H.R.1757 on 7/26/93 The Senate Commerce Committee passed Title 6 along with the rest of S.4 on 5/25/93; the bill was reported to the full Senate for consideration; no further action to date

developing a means for the government to receive input from the people that have the necessary knowledge, even if they have a personal interest in the outcome of some issues. While this is a sensitive issue, both Congress and the Administration have made it almost impossible for knowledgeable people, active in the private sector, to participate effectively in government affairs. The Administration has been non-committal on this issue and has tended to rely on informal communication. Informal channels of communication, while important, may not survive the changes in personnel that inevitably will occur. *The Administration needs to move quickly to improve private sector input to technology policy making and to strengthen the planning and management of interagency programs. This can be accomplished through a properly defined mechanism that depends on private sector input as a major source of advice and a strengthened FCCSET.*

Make the R&D tax credit permanent. Although the Administration supported this recommendation and the House tax bill adopted it, the Senate and the budget reconciliation conference report once again made the credit temporary. This will prevent industry from using the credit in long term planning and, as a result, undermine its effectiveness. Both Republican and Democratic presidents are on record as strongly favoring a permanent R&D tax credit. As the least politically controversial of the recommendations to strengthen industrial competitiveness in the U.S., this action is an important litmus test of government's commitment to addressing the nation's long term economic ills. *The Administration and Congress should cooperate to make the R&D tax credit permanent.*

IV. Conclusions

The above issues and recommendations need to be addressed quickly and effectively by the Administration and the Congress. The key opportunities to effect change in technology policy in a major way are through the FY 1995 and FY 1996 budgets. As a result, the Administration needs to devote immediate and continued effort to develop a detailed plan for implementation of its technology plan that includes justification, articulation and prioritization of recommendations, and development of milestones and evaluation criteria.

The Congress also needs to do its part to put the country's technology policy on sound footing, and through its action, acknowledge the critical role of technology in meeting the nation's economic challenge. In order to accomplish this without major increases in R&D, the Congress will have to work together to set national priorities and shift funds to areas important to competitiveness of the private sector.

RESTORING PUBLIC CONFIDENCE IN INFRASTRUCTURE INVESTMENT:

Interim Report of the Public Infrastructure Subcouncil to the Competitiveness Policy Council

Gerald L. Baliles, Chairman

Gilah Langner, Staff Director

August 1993

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I. Introduction

The Public Infrastructure Subcouncil of the Competitiveness Policy Council, charged with developing recommendations for enhancing US international competitiveness by improving effectiveness and efficiency in the movement of people, goods, and information, met on June 17, 1993 to revisit its recommendations in light of recent developments.[1] At that meeting the Subcouncil reaffirmed its earlier position that investment in infrastructure is critical for enhancing US productivity growth and for sustaining the long-term competitiveness of the national economy.

During the 1992 Presidential campaign, investing in infrastructure was presented as a positive step toward longer-term economic development and prosperity. Early this year, however, the debate over the proper level and focus of infrastructure investment took an unfortunate turn. Although the transportation sections of the President's stimulus package were not the lightning rod for criticism, one result of the debate over the package was that virtually *all* infrastructure investment came to be identified in the popular press and in the public's mind with swimming pools and "pork."

This type of equation does no service to the country. A nation that fails to maintain its infrastructure essentially places itself on an economic starvation diet. Characterizing infrastructure investment as a jobs program or as a short-cut to economic stimulus is neither helpful nor accurate. Moreover, it does a serious disservice to our nation's long-term economic prospects.

II. Recommendations

The Subcouncil makes the following recommendations on infrastructure investment levels and funding for the FY 1994 budget cycle:

■ ***Fully Funding ISTEA.*** The Subcouncil recommends an aggressive program to preserve and improve transportation infrastructure. We fully support the President's FY 1994 budget proposal calling for appropriating full authorization levels for highways under ISTEA, and moving forward with new transportation technologies including high speed ground transportation and intelligent vehicle highway systems (IVHS). For transit, the budget calls for $4.6 billion in spending a 21 percent increase over the enacted level for FY 1993 but still a half billion under the authorized ISTEA level of $5.1 billion. The Subcouncil believes that full ISTEA funding is needed for highways and transit, both to maintain the balance of highway versus transit spending, and to address pressing needs for modernization and rebuilding of major existing transit systems.

Most members of the Subcouncil believe that additional funding for preserving and upgrading existing infrastructure is long overdue. Fully funding ISTEA is a necessary first step, but it is still not enough. Congestion on the highways and at airports is costing the nation billions of dollars each year; missing connections across modes of transport impede trade; inadequate and deteriorating transit facilities prevent people from getting jobs and businesses from meeting their hiring needs. All of these are competitiveness issues.

[1] Due to his responsibilities as Chairman of the President's National Commission to Ensure a Strong Competitive Airline Industry, Governor Gerald L. Baliles, the Chairman of the Subcouncil, was unable to chair this meeting or participate in the preparation of this statement. Thomas M. Downs, Commissioner of the NJ Department of Transportation chaired the meeting. The Subcouncil's complete recommendations are presented in "Investing in Our Future: Report of the Public Infrastructure Subcouncil" in *Reports of the Subcouncils*, Competitiveness Policy Council, Washington, D.C., March 1993.

■ ***Funding Mechanism.*** An adequate, stable funding mechanism remains an absolute necessity for a productive infrastructure sector. Traditionally the gas tax has been dedicated to infrastructure improvements, and this has contributed to its credibility as a user fee. In recent years this credibility has been eroded, due in part to the diversion of 2.5 cents of the gas tax away from infrastructure spending. According to a recent GAO report, the Highway Trust Fund is barely sufficient to support full funding of ISTEA after FY 1995. Moreover, current revenues are inadequate to finance any significant increase in infrastructure spending beyond ISTEA levels.

There is growing interest in dedicating part of the gas tax to general revenue as opposed to earmarking it for improving the nation's infrastructure. The Subcouncil opposes any efforts to divert the gas tax for general revenue. The Senate version of the budget included a 4.3 cent increase in the gas tax, earmarked for the highway trust fund. However, increasing the gas tax without increasing infrastructure spending would only build up an unobligated balance in the trust fund, further eroding public trust. The Subcouncil encourages Congress to develop a forward looking infrastructure plan which includes a strategy for future spending. The American people are prepared to pay higher taxes when necessary as long as they see the benefits of their investment. The Subcouncil calls on Congress to "put the trust back in the trust fund" and preserve the gas tax as a means of financing infrastructure.

■ ***Demonstration Projects.*** The public is understandably confused by conflicting images of infrastructure investment, which is sometimes characterized as a productive economic investment and other times is criticized as pork. Even worthy demonstration projects in transportation become tarred with the brush of "pork" and that denigrating attitude then spreads to all transportation projects. The Subcouncil believes this problem must be addressed directly. Beginning with the current (FY 1994) authorization and appropriations process, the Subcouncil recommends that Congress impose on itself a three-year moratorium on new transportation demonstration projects (including water demonstration projects by the Corps of Engineers, highway and transit demonstrations under ISTEA, aviation demonstration projects, etc.). During this period, Congress should work to improve the process by which infrastructure projects are approved, exploring the appropriate state and federal roles, and refining a set of evaluation criteria to apply to future projects.

III. Making the Case for Infrastructure Investment

The difficulties in passing the President's economic stimulus package and FY 1994 budget and the continuing debate over energy and transportation taxes cannot be dismissed as failures of rhetoric. They point to a diminishing understanding of the need to invest in infrastructure, an unwillingness to pay increased taxes that are not directly linked to results, and a popular disenchantment with "business as usual" in infrastructure. All of these problems sap public confidence in the decision-making process for infrastructure investment. Below we discuss these issues and make recommendations for restoring public confidence in infrastructure investment.

In our report earlier this year, we said that the nation must invest in preserving its infrastructure, and that these investments should be paid for directly with dedicated taxes. In the

current budget debate, the view seems to be expressed that federal infrastructure investment is not particularly necessary, and that any such investments at the federal level would likely be paid for by increasing the deficit. Let us examine each of these two points more closely:

1. Why invest in preserving our infrastructure?

Maintaining a viable infrastructure is essential for any region of the country and for the country as a whole to retain current levels of business development, attract new business, and sustain its standard of living. Congested and deteriorated highways, broken water mains, inadequate sewage treatment, air traffic delays, inadequate links from truck to rail or rail to marine terminals, reduced bus and rail service all of these deficiencies may be the facts of modern-day life, but they also reduce productivity, drive up the cost of goods and services, and reduce peoples' access to employment. The real issue is not just fixing potholes; it is competitiveness. Well-selected public investments in infrastructure can play an important role in furthering economic growth and can develop US industries into world-class leaders on the cutting edge of international competition.

Recommendation: The Subcouncil calls upon the President and Administration to make clear the basis for infrastructure investments. The public can and will understand the difference between spending for the short-run and investment for the long-run if the distinctions are clearly drawn and a common sense argument made: the primary goal of long-term investments is to produce long-term benefits to the economy, in addition to creating jobs in the short-run; their overriding purpose is to improve conditions for future generations. Long-term investment should not be pitted against deficit reduction, in fact, long-term capital investment can actually lead to deficit reduction; it is this investment that what will ultimately make possible sustained growth, improved productivity, and a strengthened private sector.

2. Paying for infrastructure investment separately from other spending.

There are several reasons why this is important. First, taxpayers are generally more willing to pay additional taxes when there is a direct link between the tax and the use of the funds. This increases peoples' trust that the money collected for a particular purpose will in fact be dedicated to that purpose. Of course, not all uses of funds are the same; some monies are spent on immediate expenses; other investments produce payoffs in the future. Most households and businesses understand the difference between short-run spending and long-run investment as it applies in their own economic situations: families set up separate bank accounts for their children's college education; businesses take out loans to pay for new machinery that will raise productivity and ensure a rising stream of income into the future.

Yet the difference between short-run spending and long-run investment is often ignored at the federal level. One reason is the way in which the federal government treats operating expenses and capital investments in its budgeting and decision-making processes. Currently, operating expenses of the federal government are mixed together in the budget with investments that add to future output. Valuing all uses of money with a current dollar, one-year perspective is bound to lead to unwise uses of tax dollars; it almost guarantees that capital needs will be sacrificed for short term cash flow. One remedy for this problem might be a capital budget for the federal government. We should be mindful that in this current situation of large budget deficits there will be an

almost-irresistible temptation to classify all expenditures as investments. The capital budget idea should be

pursued and Congress should develop ways to avoid this temptation.

Recommendation: For the present time, the Subcouncil recommends that the Office of Management and Budget prepare an annual investment budget, which would give Congress a clear breakout of the budget in terms of investment and operating expenses. This investment budget should be separately considered and voted on by Congress. We are not advocating any greater deficit financing for the investment budget than for the operating budget, only that the Executive Branch and the Congress explicitly consider investment aggregates.

IV. Other Actions to Restore Public Confidence

Strategic Planning. Investment in infrastructure in the absence of a compelling infrastructure strategy surely undermines public confidence in the results. Moreover, the time has passed when public works could be undertaken on a project or strictly modal basis without regard to the larger needs of the community and region, and without regard to patterns of transport and trade across all modalities.

The Subcouncil is encouraged that the Department of Transportation (DOT) appears to be taking steps to strengthen its Office of Intermodalism and to consider transportation corridors with broad national interest. The Subcouncil again calls on DOT to prepare a national intermodal strategy to guide the development of transportation policy from a strategic perspective of competitiveness. DOT should bring in the business community as well as local governments and consumer and environmental groups to design an intermodal "map."

The Subcouncil also encourages states to develop comprehensive, up-to-date infrastructure policies and plans that will allow for rational investment and yield economic benefits. The Subcouncil also urges the Department of Transportation and Congress to place their deliberations on the National Highway System in the larger context of a National Transportation System, giving needed attention to the role of urban rail transit and intermodal networks for both freight and passenger traffic.

Investment Criteria. New projects using public capital must be evaluated with a rigor and clear-headedness that is often more commonly found in the private financial markets. Suggestions have been made by transportation leaders in Congress to address the problem in a more rational, systematic way. The Subcouncil encourages the National Economic Council and the Department of Transportation to move forward in a broader attempt to develop evaluation criteria for infrastructure projects in conjunction with the states and other entities.

V. Administration Initiatives

The Subcouncil is encouraged at seeing many pro-competitive infrastructure programs in the Administration's proposed FY 1994 budget. We are also encouraged by the progress being made at DOT in a number of areas to encourage congestion pricing both for highways and aviation; to develop innovative contracting mechanisms that will mean building new roads to last 40 to 50 years instead of 20 to 30 years; new federal requirements that states maintain their highways; and agreements with the laboratories of the Departments of Energy and Defense on pursuing research on dual-use transportation technology.

Two other initiatives are highlighted here for their importance for competitiveness reasons:

■ ***Clean Cars.*** The Subcouncil supports the Administration's proposal to convene a Clean Car Task Force linking research efforts of federal agencies with US auto manufacturers in a strong push for American companies to develop a clean car and thereby seize the competitive advantage in transportation markets worldwide. A push for clean cars is consonant with the environmental direction of the Clean Air Act Amendments and the National Energy Act, and the environmental concerns of the American people. It is also one of the great competitiveness challenges of the next two decades, and could have a profound and positive transformation on the US automotive industry as well as the entire transportation sector.

■ ***Sector Commissions.*** The National Commission to Ensure a Strong Competitive Airline Industry has an opportunity to have a major impact on the future of the industry. We look forward to the Commission's results, which we anticipate will be seriously considered by the Administration, particularly recommendations for long-term measures to strengthen the industry.

VI. Rethinking Roles of Governments and Sources of Financing

A final issue that the Subcouncil began to deliberate on is the respective role of federal and state governments in infrastructure investment, and the future of the current system of financing. Serious questions have been raised about the federal role in infrastructure; at the same time, states and localities have taken up the slack after years of federal under-investment in infrastructure. The ISTEA legislation has contributed to encouraging a gradual decentralization of transportation decision-making in order to generate more responsive and efficient solutions to needs.

Increasingly, it appears that the public's level of confidence in infrastructure investment depends in large measure on the level of government undertaking the investment. In the last few years, state after state has seen gas tax increases approved for infrastructure spending, while small federal increases in the gas tax have been only reluctantly approved. This is partly because of past large unspent balances in federal trust funds. It is also because people are less willing to pay for things the more indirect are the benefits and when they distrust that the money will be spent wisely, efficiently, and in the nation's best interests. The federal gas tax has lost much of its credibility as a user fee to finance infrastructure investment. Indeed, half of the 1990 increase in the gas tax was diverted for purposes other than transportation.

On the other hand, a federal role in infrastructure continues to be important: (1) to establish a threshold level of capital investment that is critical to long-term productivity and economic competitiveness; (2) to honor federal commitments to national projects such as the interstate highway system (and prospectively, to maintain a high standard of performance on the National Highway System when it is designated); and (3) to distribute investment funds across regions of the country, capitalizing on the interregional "spill-over" benefits of infrastructure.

In light of the budget debate, the availability of federal financing and the role of the federal government will need to be re-examined. Alternative sources and methods of financing will receive increasing attention, with a far greater reliance on project finance and user fees. DOT has taken constructive steps in opening the door to congestion pric-

ing and toll collection on federal roads; other barriers to private/public partnerships need to be addressed as well. Potential federal (and state) roles as guarantor, underwriter, or initial investor in infrastructure projects will need further debate and clarification. The federal presence in the ongoing debates on privatization and alternative financing must be strengthened.

Recommendation: The Subcouncil recommends that attention be given at the highest levels of the Administration to the roles of federal, state, and local governments in financing infrastructure, and to exploring how alternative funding mechanisms can be developed and barriers to financing removed so as to provide stable sources of infrastructure funding. This assessment could take place in the context of the National Performance Review being conducted by Vice-President Gore or through the National Economic Council's task force on infrastructure financing.

VII. Additional Research

The Subcouncil has identified a number of areas where additional research would be useful; in some of these areas, the Subcouncil may itself commission or compile research. The areas include:

- a comparative analysis of how operating expenses and capital investments are classified and handled in the budgets of other countries;

- development of guidelines and a methodology for estimating the competitiveness impacts of infrastructure projects; in current cost-benefit analyses, there is no established way to capture the spill-over benefits of infrastructure projects in enhancing trade or productivity; and

- an evaluation of the role of user fees in bringing a marketplace discipline to public-private infrastructure projects.

FORGING A STRONG TRADE POLICY:

Interim Report of the Trade Policy Subcouncil to the Competitiveness Policy Council

John J. Murphy, Chairman

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September 1993

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I. Introduction

The US economy is part of an integrated world economy with exports and imports of goods and services equalling one quarter of America's gross national product. This interrelationship between domestic and international economic matters is demonstrated by the fact that reducing the budget deficit will probably have a larger impact on reducing the trade deficit than any other single policy action. After some initial delay, execution of the Clinton Administration's trade policy is on target, but more needs to be done to assure American economic competitiveness.

The Trade Policy Subcouncil report, "A Trade Policy for A More Competitive America," emphasized the need to shift American thinking on trade policy to encourage exports. The report reflected the views of business, labor, government and public interest representatives, and focused on six main areas: global growth, exchange rate stability, trade negotiations, export financing, export promotion and removing export disincentives. The outcome of the G-7 Summit and the announcement of the US-Japan Bilateral Framework in July, along with the release of the Trade Policy Coordinating Committee (TPCC) "National Export Strategy" report to the Congress on September 29, 1993, are important milestones for examining the Administration's progress in these six areas.

For the first several months of the Administration, its actions seemed slow at a time when the development of an export mentality throughout the government and private sector was imperative. Negotiations in the context of the G-7, the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA), and US-Japan Bilateral Framework now demonstrate, however, that the Administration is advancing a global growth strategy and market opening efforts through multilateral and regional negotiations, both major themes of the Second Report of the Competitiveness Policy Council. Moreover, the TPCC report is implementing many of the Council's specific recommendations for increasing export financing and promotion and reducing export disincentives, most prominently export controls. This export commitment is critically important at a time when expansion of overseas markets for US goods can help offset slow growth of the US domestic market.

II. Global Growth Strategy and Exchange Rate Coordination

The full Council and Trade Policy Subcouncil recommended G-7 initiatives which would sustain and enhance global growth as well as maintain a competitive exchange rate for the dollar. Fiscal stimulus was recommended to boost domestic demand in Japan. Fiscal tightening was recommended in Germany to facilitate lower interest rates there and throughout Europe. The Subcouncil recommended that exchange rate coordination be built upon "reference ranges" like those installed in the Louvre Accord in 1987 to make US goods more competitive and adjust the undervalued yen. The Subcouncil also recommended institutional reforms to facilitate coordination.

At the Tokyo G-7 meetings held in July, the Clinton Administration took some significant steps, consistent with full Council and Trade Policy Subcouncil recommendations, to implement a *global growth strategy*. The United States pledged to cut

its budget deficit; Europe committed to lower interest rates; and Japan agreed to implement a stimulative economic policy aimed at increasing domestic demand through fiscal measures.

In the US-Japan Bilateral Framework, the two countries pledged to advance macroeconomic coordination. US budget cutting and Japanese growth led by domestic demand are appropriate actions in light of the economic situation in both countries.

Although a global growth strategy is taking root in this international economic dialogue, implementation is still lacking in some crucial areas. First, Japan must take stronger measures to stimulate demand. Japan has only begun to perceive the effects of the August 1992 and April 1993 stimulus packages, and because of continuing weak consumer demand virtually every political party in the July electoral campaign proposed tax reduction measures among other actions in the months ahead. Post-election statements issued by Morihiro Hosokawa, the newly elected Japanese Prime Minister and leader of the seven-party coalition, however, suggest that traditional bureaucratic cautiousness may retard the implementation of fiscal initiatives needed to stimulate the Japanese economy. This is so even though the new government launched this Fall a round of deregulation measures, as well as another fiscal stimulus package.

Second, Germany must build on the cautious interest rate reductions made by the Bundesbank in recent months in order to reverse its negative growth and the double digit unemployment that has spread throughout Europe. Europe's widening of the exchange rate margins under the European Monetary System (EMS) in August may permit additional interest rate reductions and hence could stimulate a more rapid pickup of growth.

With regard to *exchange rate coordination* among the world currencies, the Subcouncil report stated that "the United States must address the budget deficit to sustain long term interest rates and a competitive exchange rate for the dollar." The US deficit cutting program has helped to correct the yen's earlier undervaluation as interest rates in the United States have dropped. The dramatic burgeoning of Japan's global trade surplus, combined with the market's perception of US official jawboning in the first months of the Administration, have had the effect of pushing the yen higher against the dollar in currency markets. The yen appreciated by roughly 20 percent from January until late August, when the central banks of both nations intervened to counter a further rise. Meanwhile the Exchange Rate Mechanism (ERM), which established tight exchange rate ranges within which European currencies were permitted to fluctuate, has been substantially broadened. Bearing all these developments in mind, currency reference ranges around current levels might assist in maintaining a competitive level for the dollar and insure against renewed yen depreciation. On the other hand, others have serious reservations that help to explain why references ranges have not been implemented to date. The recent G-7 Finance Ministers' communique addresses the need for coordination but avoids reference ranges, stating merely that "efforts to make exchange rates more stable and better reflect economic fundamentals will be most successful if accompanied by a close coordination of macroeconomic policies."

III. Trade Negotiations

The Trade Policy Subcouncil recommended that GATT nations conclude the Uruguay Round as soon as possible and schedule a post-Uruguay Round multilateral trade negotiation to deal with new issues

such as the linkages between trade and the environment. The Subcouncil also supported continuing bilateral and regional market access talks. G-7 leaders have agreed to give the Uruguay Round the highest priority and welcomed the negotiated market access package as an impetus for restarting the stalled Round.

Sir Leon Brittan, chief trade negotiator for the European Community (EC), speculated that the new market access package concluded at the Summit will make it possible to conclude the Uruguay Round by the end of the year, and US officials have made confirming remarks. With Congress signaling its support by renewing the President's fast track trade negotiating authority, the final stages of negotiations should be complete by mid-December 1993. Obstacles remain, however. France objects to the agricultural arrangements embodied in the November 1992 Blair House Accord. Britain asserts that the United States will have to make further cuts to US textile tariffs. And Japan must agree to further market access concessions.

The market access package adopted at the G-7 Summit shows clear progress in addressing the Trade Policy Subcouncil's recommendations for trade liberalization, especially in those areas of pharmaceutical products, medical equipment, beer, furniture, construction equipment and distilled spirits where tariffs would be eliminated. In addition, tariffs on textiles, apparel, and ceramic products would be cut by up to fifty percent. Tariffs on glass products would be cut by twenty-five percent. This was a major step in clearing the way to agreement among the 106 members of GATT.

In addition to the multilateral efforts made in trade negotiations, regional trade negotiations continue. The Clinton Administration has completed negotiations on side agreements for the North American Free Trade Agreement (NAFTA) to address labor and the environment, two issues identified by the Trade Policy Subcouncil as needing further attention. President Clinton has emphasized the importance of the Pacific rim nations for the American economy and has announced his intention to strengthen economic ties between the United States and the Pacific rim by creating a "new Pacific Community." President Clinton has called for an informal leadership conference of Asian Pacific Economic Cooperation (APEC) members to follow a meeting of the APEC ministers in November in Seattle.

IV. Export Financing

The Trade Policy Subcouncil recommended improving the effectiveness of US export financing to aid in export promotion. Specifically, the Subcouncil called for increases in the Eximbank budget as well as increased participation by commercial banks via well-targeted "bundling" and other programs in order to meet the rising demand for export financing and to strengthen the US response to subsidized exports by its trading partners. The Subcouncil also called for additional resources to help the Eximbank run more efficiently and avoid delays in time-sensitive business and marketing decisions.

The Administration requested $757 million in FY 1994, the same as requested for FY 1993, for the Eximbank. The House provided $700 million for FY 1994; however, the Foreign Aid Appropriations Conference approved Senate language funding the Eximbank at $1 billion, $700 million for core programs and $300 million for the Newly Independent States (the former Soviet Union). The Trade Policy Subcoun-

cil had called for $1.2 billion to finance $20 billion of exports, and Congressional supporters of the new legislation state that $1 billion can support $18 to 20 billion of financing.

The Eximbank has been making efforts to revitalize its programs and forge more public-private partnerships, building on initiatives begun by the previous Administration. To support the expansion of exports, the Eximbank is attempting to find ways to make its programs more easily available to small and medium-sized businesses, which in the past have received less Eximbank support than larger firms, and to create "a more proactive, consumer-friendly Bank."

In early May, the Chairman of the Export-Import Bank announced the use of a Letter of Interest designed to reduce application processing time from six months to seven days, an idea developed in the previous Administration. The Eximbank has also continued its focus on the Small Business Group strategy, implemented in Spring of 1992, which added visibility to small businesses and to the city-state training programs.

The Subcouncil had also recommended that the United States strengthen its response to "tied aid" financing by its trading partners by aggressively enforcing the OECD arrangement on "tied aid" financing and "mixed credits" (a blend of commercial-type financing with development lending). The TPCC report, stating that "Details of recommendations are not available at the time of this first printing," reflected a highly publicized Administration debate on this topic. Subsequently the Administration announced it would set aside $150 million from existing export finance programs to combat "tied aid."

V. Export Promotion

The Trade Policy Subcouncil urged the Administration to act as a catalyst in the creation of an "export mentality" by streamlining the export promotion bureaucracy. It recommended pooling, expanding and reallocating the export promotion budget; developing a clear export promotion strategy; and focusing on the insufficiently tapped potential of small and medium-sized businesses.

The Competitiveness Policy Council and its Trade Policy Subcouncil recommended a unified or single budget function to help establish export promotion priorities. The TPCC report calls for such a unified budget in FY 1995. The President's export plan envisions a National Economic Council (NEC) interagency group chaired by the Commerce Department that will assist the Office of Management and Budget to translate priorities into a unified budget. While the groundwork has been laid for the implementation of this very important recommendation, next year tough political decisions still need to be tackled involving 1) the allocation of export promotion monies to agricultural or manufacturing products (roughly 80 percent is now allocated for agriculture, a sector that produces only 10 percent of all exports); and 2) the possible elimination or consolidation of some of the 19 agencies currently involved in export promotion.

President Clinton announced in May that the TPCC, under the leadership of Secretary of Commerce Brown and Eximbank Chairman Brody, would serve as a vehicle for coordinating US export promotion. The TPCC's National Export Strategy effectively addresses a broad range of ideas and issues raised in the Trade Policy Subcouncil report. The President's export plan calls for the creation of one-stop shops where all federal export promotion and trade finance programs can be accessed. Initially, four offices located in Los Angeles, Chicago, Baltimore and Miami will be created with more to

come in the future. These offices are designed to eliminate confusion surrounding the current export information regime, and to assist small and medium-sized businesses which do not have offices in Washington. While the TPCC plan neither consolidates specifically nor eliminates any of the 19 agencies currently operating some 150 different export promotion programs, it does make progress in defining each of the agency's scope. The new program should reduce current confusion over jurisdiction and make the export promotion bureaucracy more user-friendly.

VI. Export Controls

The Trade Policy Subcouncil called for, and the full Council endorsed, the examination and removal of unnecessarily burdensome export controls and other domestically applied export disincentives. The Subcouncil's report cited statistics showing that these disincentives may account for as much as $30 billion in lost US exports. Specifically, the Subcouncil called for fundamental reform in US export control policy-making and administration, multilateral rather than unilateral export controls, and consolidation of export control administration into one federal agency under the supervision of the National Economic Council (NEC) in conjunction with the National Security Council (NSC). The Subcouncil proposed centralizing export control decision-making in the Commerce Department, especially on routine licensing.

The Administration's September announcement calls for the immediate removal of export restrictions on most computers. The plan also calls for a sharp reduction in approval time for export licenses. The Administration's steps to streamline and modernize the export control regime are consistent with the Trade Policy Subcouncil's recommendations.

With these major announcements, the Clinton Administration is fully engaged in export control liberalization. Now that the President has made these significant decisions, the focus must shift to Congress and the Export Administration Act (EAA). The EAA expired September 1990 when Congress's attempt to reauthorize the EAA failed. Consequently, the Congress extended the EAA until June 1994. It is hoped that when the Congress takes up new legislation, it will embrace the Council's principles of reducing unilateral controls and relying on multilateral mechanisms of enforcement. To build on what the President has started, the Congress should avoid legislating new foreign policy controls that could lead to unintended set-backs to this welcome trade liberalization.

The Administration is reviewing existing Coordinating Committee on Multilateral Export Controls (COCOM) requirements and will likely expand the COCOM's scope to include regimes established to prevent weapons proliferation. The recent US moves to ease controls could accelerate a COCOM agreement to liberalize computer and telecommunications controls, as well as an agreement with Japan that will relax controls on supercomputers.

VII. Conclusion

The full Council and the Trade Policy Subcouncil recommended a global growth strategy based on macroeconomic coordination to achieve higher national growth rates among the recession-burdened G-7 industrialized economies. The Clinton Administration is implementing many of the Council's recommendations, such as addressing the US budget deficit and urging the

G-7 to adopt a global growth strategy. However, much remains to be done. Further commitments are needed from G-7 countries concerning macroeconomic coordination. The Administration's TPCC export plan mirrors many of the Council's detailed recommendations to streamline and energize US export promotion and financing policies and to reduce export controls that unnecessarily restrict US exports in the post Cold War era. Administration leadership, multilateral coordination and Congressional reinforcement are all part of a continuing task to achieve and secure future gains in each of these areas.

In recent years, exports have been a key engine of economic growth. Their importance may increase as long as fiscal policy remains constrained by high budget deficits. Therefore, a US trade policy aimed at boosting exports must be an integral part of a long term, ongoing, overall strategy to improve US competitiveness.

INVESTING IN OUR WORKFORCE:

Interim Report of the Training Subcouncil to the Competitiveness Policy Council

Lynn R. Williams, Chairman

September 1993

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I. Introduction

During the 1992 Presidential campaign the three major candidates each placed high priority on the importance of "investing in people," through creating jobs and improving worker skills and the tools available for work. Much of this interest was reflected in candidate Bill Clinton's book ***Putting People First***. Since coming into office, President Clinton's concern has focused on the apparent disconnect between economic growth and job creation. This concern served as the centerpiece of the recent G-7 meeting in Tokyo, and the participants agreed to hold a conference to discuss this issue in the fall.

The United States is faced with the need to pursue two objectives simultaneously. On the one hand we must adopt macroeconomic policies which promote the creation of more jobs. At the same time resources must be devoted to worker training and investment in new technologies and equipment, so that these new jobs are "good" jobs, i.e. high wage jobs employing high skills. As the Council points out in its second report, productivity growth alone is not enough, we must also promote high growth policies in order to improve our competitiveness and increase the standard of living of ***all*** Americans.

The Training Subcouncil of the Competitiveness Policy Council met throughout 1992 to develop recommendations on ways to improve worker skills. The group was encouraged by the attention paid to the needs of workers during the campaign but is now concerned that these issues have once again fallen off the policy radar screen. We remain committed to working toward implementation of these policies. The Subcouncil believes that we must actively pursue both policy objectives simultaneously -- creating more and better jobs -- and not one at the expense of the other.

The focus on training results from considerable research which suggests that training enhances productivity, which in turn improves the standard of living of all Americans. A fully trained workforce insures higher product quality, making US goods more competitive in the domestic market against foreign imports as well as more marketable in overseas markets. **Investing in workers, through education and training, is at least as important as investing in machinery and equipment.** There is little point in introducing technologically advanced machinery without properly training workers in order to get the most out of that equipment. Worker training is also an investment in encouraging labor market flexibility throughout the economy.

The United States currently has no coherent program for worker training. Workers, youth and firms face a confusing array of public training programs, riddled with duplication and overlap. No central "intake" center helps potential trainees seek information on jobs skills. Inadequate attention is devoted to connecting public delivery systems with private sector needs; virtually none is directed at evaluating results. Workforce training needs are being overlooked by workers themselves and by the firms they work for.

In its initial report to the Competitiveness Policy Council, the Training Subcouncil made recommendations in four major dimensions aimed at creating a strategy of "lifetime learning." Any system of "lifetime learning" must be founded on a sound basic education system, guided by high standards and fair assessments.[1] Beyond this foundation, the first step is to improve the "school to work" transition. The second area is continuous worker training, in order for workers to upgrade their skills as the demands of their jobs inevitably increase in today's rapidly shifting, internationally exposed economy. Third is assisting the transition from job to job, by offering retraining and other types of assistance to adults dislocated by technological or other change in the economy. Fourth is

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[1] The Council's Education Subcouncil focused on achieving these reforms in the nation's education system. Its report, "Toward a Standards Based Education System," is part of Reports of the Subcouncils and is available from the Government Printing Office.

the streamlining and improving current worker training programs.

In each of these areas listed above, the United States faces two challenges. **First, we must improve the efficiency of existing programs.** There is considerable overlap in current training programs and very poor coordination between various types of worker assistance. **Second, given our low starting place relative to our major competitors, the United States must simply do more in each of these areas.**

II. School to Work Transition

In our original report, the Subcouncil called for the federal government to **finance pilot programs of public-private cooperation**, such as apprenticeship programs, compacts where employers guarantee jobs to students who do well in school, cooperative education where seniors work part-time in areas connected to their training specialty, and career academies where students develop skills around a specific field. **Most importantly, as with education, the government should insist that agreed skill standards provide the foundation for all these efforts.**

The Clinton Administration has placed "school to work transition" high on its priority list, requesting $270 million in additional funds for FY 1994. The Administration has called for expanded demonstration projects in areas where there currently are no programs underway. The Subcouncil is encouraged by the Administration's efforts in this area and calls on Congress to support this initiative.

III. Continuous Worker Training

There is general agreement that we must devote more resources to providing continuous training to active workers. American companies already devote substantial dollars to workforce development, although the resources are not distributed proportionately according to need or type of worker. The rapid pace of technological change dictates the need for a system of ongoing training for all workers.

While there is little disagreement on the need for more worker training, there is quite a lot of debate on how to finance it. The Subcouncil originally suggested three alternative methods of fostering increased training: (1) "play or pay," requiring firms to invest 1 1/2 percent of payroll in training, by either conducting the training themselves or contributing the equivalent to a national training fund; (2) federal grants aimed mainly at smaller firms, matched by state contributions financed from general revenues or a small payroll tax; and (3) training tax credits.

In spite of the interest during the Presidential campaign and repeated calls for the importance of increasing working training, the FY 1994 budget does not include any new funds for worker training. It is unlikely that any significant training effort, particularly if it places any additional burden on business, will be instituted within the next year, given the concern over the increased costs associated with health care reform. The Subcouncil calls on the federal government to work with state governments, businesses and labor representatives to develop a long-range strategy for improving the availability of training for all workers. The first step of this strategy should be the development of national training goals. Companies should be encouraged to meet these goals through financial and non-financial incentives, similar to the requirement that all recipients of the Baldrige Award meet certain training objectives.

IV. Dislocated Worker Programs

Defense cutbacks, technological change and trade liberalization have joined forces to place the US labor

market under more structural pressure today than in any time over the last fifty years. Between 1987 and 1992, 5.6 million American workers with three or more years of seniority permanently lost their jobs. By January 1992, more than a third were still looking for new jobs or had dropped out of the labor force entirely. We are wasting a large pool of talent.

There is considerable evidence that the benefits of defense cutbacks, technological change and trade liberalization will outweigh their associated costs, but we cannot ignore the fact that critical segments of the US economy may experience severe dislocation as a result of these developments. Recent experience suggests that these dislocation effects are usually concentrated by industry and region, making the adjustment process even more difficult.

The United States needs a comprehensive program to help those workers who are adversely affected by policies which aim to benefit the economy as a whole. Government labor market programs serve as one vehicle for helping reduce the adjustment burden borne by these workers. A comprehensive program would combine various aspects of existing programs, providing adequate benefits to all workers in need. Benefits should include job search assistance, skills assessment, counseling, referral services, adequate income support, payments for retraining programs and extended income and benefit (including health care) payments through the training period.

Realizing this great need, the Administration has requested approximately $1.2 billion in additional funds for dislocated worker assistance in FY 1994. While the level of funding is far greater than that devoted to dislocated workers over the last decade, we are still awaiting important details on the type of benefits and how they will be delivered. The Subcouncil believes that any serious adjustment program must include some type of income maintenance payments and must have a secure funding source, so that all workers in need will receive adequate benefits, including access to meaningful training, job search assistance and income maintenance throughout the transition period.

This program is a modest attempt to offset the huge financial and personal losses which workers experience when they lose their jobs. It is also an investment in encouraging labor market flexibility throughout the economy.

V. Streamline Programs

We need to coordinate various worker training programs at the local, state, and national levels in order to better serve our training needs. **The United States needs to create a comprehensive network of local centers to provide one-stop shopping for students, employees and firms providing skills assessment, career counselling, job placement, recruitment and referral assistance**. These local centers should evaluate and certify providers of training services, and promote the formation of training consortia by companies and unions. They should report to new state coordinating councils (as already set up in New Jersey and Oregon), which should be required by the federal government as a condition for disbursement of its training, education and economic development funds.

VI. Conclusion

The Clinton Administration has indicated that it places a high priority on the development of workplace skills. The serious attention devoted to these matters by the President and the Secretary of Labor is significant. The Subcouncil supports the Administration's efforts to develop proposals in the areas of School to Work Transition and Dislocated Worker Assistance. These reforms hold great promise. However, their ultimate effectiveness will hinge on the details of program design. How the Administration and Congress address issues such as funding, eligibility and benefit levels will determine whether the reforms have a durable effect on our competitiveness.

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